King County

KING COUNTY INVESTMENT POOL NEWSLETTER

Volume 14, Number 5 May-2009

Portfolio Breakdown

The following is a breakdown of the Investment Pool holdings for May 2009

	Average ($000)	% of Portfolio
U.S. Agency Securities	2,536,093	52.3%
Commercial Paper	-	0.0%
Taxable Municipal Securities	15,000	0.3%
Bankers Acceptances	-	0.0%
U.S. Agency Mortgage-backed Securities	63,015	1.3%
Repurchase Agreements	348,774	7.2%
Treasury Securities	671,835	13.9%
Certificates of Deposit & Overnight Deposits	724,258	14.9%
Local Government Investment Pool	489,960	10.1%
Reverse Repurchase Agreements	-	0.0%
Total	$4,848,936	

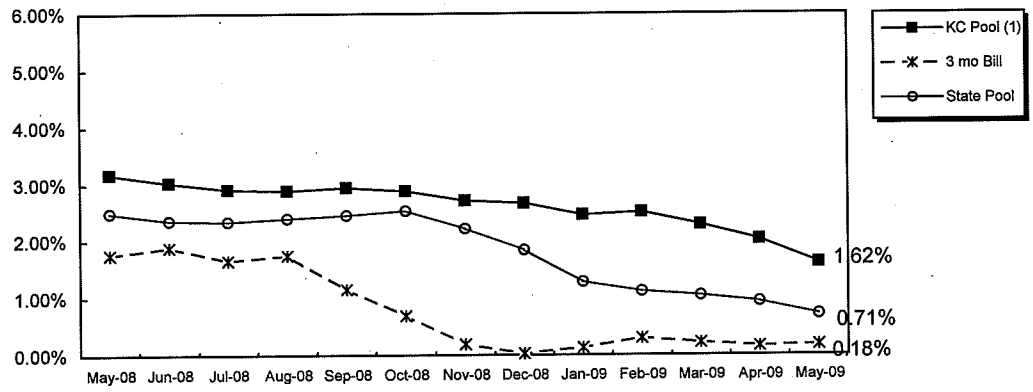
*Average Pool Effective Duration: 0.66 Years

*Duration is a measure of the length of the portfolio's expected cash flows and is a better measure of average portfolio life than maturity.

King County Pool Rating

In January 2008, the rating of the King County investment pool was temporarily suspended by Standard & Poor's pending further information being available on the outcome of restructuring proposals associated with each impaired investment. Three of four restructurings have been completed in 2008 with one remaining in 2009. King County has initiated discussions with S&P to restore the pool's AAA rating and anticipates action during 2009.

Investment Pool Performance (before Pool fees)



(1) King County Pool Distribution rate has not been adjusted yet for realized losses from impaired commercial paper investments.

Pool Net Asset Fair Value on May 31, 2009

Net Assets (2)	4,711,870,585.05
Net Assets Consist of:	
Participant units outstanding ($1.00 par)	4,683,605,606.39
Undistributed and unrealized gains(losses)	28,264,978.66
Net Assets	4,711,870,585.05
Net asset value at fair value price per share ($4,711,870,585.05 divided by $4,683,605,606.39 units)	1.0060

(2) Excludes impaired assets that have been separated into a separate pool.

Performing Pool Comments: May's average pool balance increased by about $800 million, primarily due to the seasonal inflow of property tax monies. U.S. Treasury and agency securities continued to make up the majority of the pool's investment holdings. However, there was a slight increase in the use of certificates of deposit (CDs) and repurchase agreements. Recent legislative changes have made public fund CDs more secure by requiring that by July 1st all banks increase the percentage of securities collateralizing their CDs to 100%. This enhancement has made buying CDs more attractive since the protection to public investors has been significantly improved. The pool also increased it's utilization of repurchase agreements. Repurchase agreements are only placed with financially strong investment dealers, and these investments are fully collateralized by U.S. agency securities.

During May interest rates remained near historically low levels. The combination of more money to be invested and low rates resulted in the pool's rate decreasing for May. Unfortunately, the trend for the pool's rate is lower, but the rate of decline should stabilize for the next few months. The pool's rate still compared favorably to other short-term investments, and this was due to the pool's policy that allows the purchase of securities with longer durations. Having longer maturing securities helps stabilize the pool's yield when interest rates are falling. Economists and market indicators are still predicting that we may not see higher interest rates until late in 2009 or early 2010.

The unrealized gain in the portfolio at the end of May was about $28 million. This was about $2 million higher than the prior month's figure and was a result of both the low interest rate environment and the narrowing of interest rate spreads between U.S. agency and U.S. Treasury securities. Lower spreads between agency and Treasury securities lead to higher prices on our agency positions.

We are continuing the strategy of investing the pool's assets in securities that have the support of the Federal government: U.S. agency obligations, U.S. Treasury securities, and certificates of deposit and savings accounts with banks that have received capital infusions from the U.S. Treasury. We continue to consult regularly with our investment consultant, PFM, and they concur with our current strategy. King County also remains committed to sharing information with pool members about investment holdings and the impacts of the current turmoil in global credit markets. Please call the Treasury Operations number at 206-296-7326 if you have questions or need any additional information.

Impaired Pool Holdings Report
5/31/2009

Commercial Paper Issuer	Status	Current Book Value	Estimated Future Cash Recovery	Estimated Future Unrealized Loss
Mainsail II (1)	Restructured	3,022,926.58	782,000.00	2,240,926.58
Cheyne Finance (1)	Restructured	787,502.14	507,750.00	279,752.14
Rhinebridge (1)	Restructured	1,885,308.88	1,134,600.00	750,708.89
Victoria Finance (2)	Restructuring In Progress	41,340,062.69	8,528,000.00	32,812,062.69
	Total	47,035,800.29	10,952,350.00	36,083,450.30

Certificates of Deposit & Overnight Deposits

Fair Value Ratio	0.2329

(1) These amounts are related to cash that was retained for DTC indemnifications and other reserves. It could be as long as 2014 before these "tail" amounts are returned to investors, and it is possible that the amount recovered may be less than the estimate.

(2) Victoria Finance restructuring is not complete. These estimates are based on market price from a single dealer willing to provide a quote. Victoria's trustee has not yet released May's report, but as of April 30, 2009 the intrinsic value estimate from the King County Pool's proportionate share was about $17.4 million, excluding the recent cash payments, and this is materially higher than the $8.5 million single dealer valuation for May.

Impaired Pool Comments:

The vast majority of the amount remaining in the impaired pool as of May 31st is associated with Victoria, the one investment waiting for restructuring. Victoria continues to make regular monthly distributions, and we received a May payment of $1,084,978.37 and another $475,853.91 was received in early June, which is not yet reflected in the numbers above . The trustee for the Victoria restructuring recently informed us that because of the complex nature of the legal work surrounding the restructuring, it now looks like the restructuring will not be completed until the fourth quarter of 2009. However, the monthly cash distributions will continue at least until the restructuring process is concluded.

The May market price was the same as April's quote. Pricing for impaired investments has been difficult to obtain because of the illiquid nature of these securities, and we may see larger price swings in future months. Victoria's trustee has not yet released its report for May, but adding the cash recoveries through May to the May dealer price (16%) results in an estimated recovery rate to senior investors of about 39%.

The King County Executive Finance Committee approved bifurcation of the investment pool so that the impaired investments would be in their own pool separate from the main pool of "performing" investments. The effective date of the bifurcation was September 1, 2008 (this date was selected based on input from pool members). The reasons for bifurcating the pool were to: (1) ensure the yield on the performing assets is not negatively impacted by the impaired investments; (2) enhance transparency about the value of the performing pool and the impaired pool; (3) ease the implementation of the restructuring processes for the impaired investments; and (4) expedite the restoration of the Standard & Poor's rating for the performing pool.

There are also "tail" payments from the other three completed restructurings (Cheyne, Rhinebridge and Mainsail) that will remain bifurcated until such time that we receive future cash payments and convert the remaining unrealized losses into realized losses.